2004 Taxpayer Assistance

Michigan
Department
of Treasury



www.michigan.gov/treasury

WHAT'S NEW FOR 2004 FORMS

All Forms:

- Boxes For Amounts & Other Entries
- Keep Letters & Digits Inside Of Boxes
- Social Security # Must Be Placed On Back Of Each Form
- Print Clearly With Blue Or Black Print On All Handwritten Forms

FORMS - continued

- HOME HEATING CREDIT MI-1040CR-7:
 Standard Allowance Table Included In Instruction Booklet Not On Form
- Family Independence Agency/ Family Independence Program (FIP/FIA) Credit Included In Instruction Booklet

 Not On Form
- Elimination Of Fax # For Forms

NEW LEGISLATION - Pgs. 10 & 11

P.A. 199 OF 2004 – (ARMED FORCES)

- Extensions Same As Federal
- Need Not File Separate Extension With State Of Michigan
- Write "Combat Zone" Red Ink On MI Returns
- P.A. 335 OF 2004 HOME HEATING CREDITS

P.A. 335 OF 2004 – HOME HEATING CREDITS Pg. 11

Direct Deposit Of Energy Drafts To Enrolled Heating Providers

- Pilot Program
- **FIA Recipients**
- Three Providers
 - Consumers Energy
 - DTE
 - Semco Gas

P.A. 363 OF 2004

Check Off On MI-1040 For Military Family Relief Fund Contributions

2004 RATES & LIMITS -Pg. 12

™ Tax Rate 3.95%

Regular Exemption \$3,100

Special Exemption \$2,000

Pension

Single \$38,550

Joint \$77,100

Sr. Citizen Interest, Dividends, & Capital Gains Deduction

Single \$8,595

• Joint \$17,190

CUSTOMER SELF- SERVICE - PGS. 12 & 13 www.michigan.gov/iit - 1-800-827-4000

- Check Dates Of Processing
- Check Tax Return Status
- If A Refund Has Been Offset
- Check On Estimates
- Check Status Of A Letter
- Request Copies Of Filed Returns
- -- Ask Treasury A Question
- Request Blank Tax Forms

COMMON MICHIGAN INCOME TAX FORMS

Michigan Income Tax MI-1040

Property Tax Credit

MI-1040CR

→ MI-1040CR 2

Home HeatingCredit

MI-1040CR 7

HOMSTEAD PROPERTY TAX CREDIT Pgs.19 & 20

- **Home Owners Who Are:**
 - Senior Citizen
 - Hemi, Quadri, Or Paraplegic
 - Totally & Permanently Disabled
 - Blind / Deaf

The Credit Equals The Amount That Property Taxes Exceed 3 ½% Of Household Income (HHI)

All Other Home Owners:
Must Multiply The Answer From Above By 60%

HOMESTEAD PROPERTY TAX CREDIT - continued Pgs 19 & 20

- Also Available To Renters
- Offsets Income Tax Liability Or Directly
- Refunded If No Income Tax Liability
- Must Be A Michigan Resident (6 Months)
- Homestead Owned Or Rented Must Be Occupied:
 - No Credit On A Cottage, Second Home, Or Vacation Home
 - Exception Vacant Lots Which Are Contiguous (Attached To Home)

HOMESTEAD PROPERTY TAX CREDIT - continued <u>Pgs. 23 - 25</u>

- Based On Property Taxes As Billed Not As Paid
- Only Use Taxes For 2004 Can't Combine With 2003 Taxes
- For Homes Purchased Or Sold During The Year The Amount Of The Total Property Tax Bill Must Be Prorated By The Period Of Occupancy

HOMESTEAD PROPERTY TAX CREDIT - continued Pgs. 23 - 25

When Computing Property Taxes Paid Everything On The Bill Is Eligible Except:

- Penalty & Interest
- Most Special Assessments
 - Sidewalks, Sewers, Etc.,
 - Items Not Based On Taxable Value

Collection Fees Up to 1% - Allowed

- 1. **General Claimant** Under 65 and Does Not Qualify Under Any Other Method
- 2. Senior Citizen Regular Method Hemiplegic, Paraplegic, Quadriplegic,
 Totally Disabled, Blind or Deaf

 Definitions:
- Senior Citizen At Least One Spouse Over 65
- Paraplegic Paralysis From Waist Down
- Hemiplegic Paralysis on One Side Only

Definitions - continued

- Quadriplegic Paralysis from the neck down
- Blind Vision 20/200 or Poorer with corrective lenses

Deaf - Cannot Receive Verbal Communication

HOMESTEAD PROPERTY TAX CREDIT - continued METHODS OF COMPUTATION - continued - Pg. 31

- 3. Senior Citizen Alternate Rent Method Qualifying Senior Citizen and Rent Exceeds 40% of HHI
- 4. Senior Citizen Optional Method Senior Citizen 97 Or Over

5. Military - Service Persons, Veterans, Their Spouses, Widows or Widowers

HOMESTEAD PROPERTY TAX CREDIT - continued METHODS OF COMPUTATION - continued - Pg. 31

6. Blind - Not Senior Citizen, Vision is 20/200 Or Poorer In The Better Eye

7. FIP/FIA - All Or Part Of HHI Is From FIP/FIA

TABLE - Pg. 21

<u>HHI</u>

General Claimants

%Not Refundable

3.5% Of Income

Regardless Of

Income

TABLE – Pg. 21

Senior Citizens, Hemiplegics, Paraplegics, Quadriplegics, Totally Disabled, Blind or Deaf and HHI under \$6,000.

<u>HHI</u>	% Not Refundable
0 to 3,000	0% Of Income
\$3,001 to 4,000	1% Of Income
\$4,001 to 5,000	2% Of Income
\$5,001 to 6,000	3% Of Income
\$6,001 And Over	3.5% Of Income

Senior Citizen - Alternate Rent Method

QUALIFICATIONS:
Senior Citizens Who Rent

METHOD OF COMPUTATION

The Credit Equals The Amount By Which Rent Paid Exceeds 40% of Household Income

SENIOR CITIZEN -ALTERNATE RENT METHOD <u>ILLUSTRATION 1</u>

™ HHI \$5,000

Rent Paid \$2,500

SOLUTION:

HHIX 40 %

\$5,000 X .40 \$2,000 Rent Paid \$2,500 - 2,000

\$ 500

HOMESTEAD PROPERTY TAX CREDIT - continued METHODS OF COMPUTATION ILLUSTRATION Pg. 33

- Jim Is 68 And Jill Is 38
- Household Income \$8,000
- Rent Paid \$4,000 For The Year

ILLUSTRATION – Pg. 33 SOLUTION - REGULAR METHOD

>>> Rent \$4,000

™ Multiply By 20% X .2

800

™ Less HHI \$8,000

X .035

\$280 - 280

Credit = \$520

ILLUSTRATION continued – Page 33 SOLUTION - ALTERNATE METHOD

>>> Rent \$4,000

™ Less HHI \$8,000

X .40

\$3,200 - **\$3,200**

Credit = \$ 800

Use Alternate Method

\$ 800

HOMESTEAD PROPERTY TAX CREDIT - continued METHODS OF COMPUTATION RENTERS - ELIGIBLITY - Pgs 25 & 26

- A. Use 20% Of Rent Paid When Homestead Is Subject To Property Taxes
- B. Use 10% Of Rent Paid When Landlord Pays A Service Fee Instead Of Property Taxes

Examples - City Owned Housing, Some Subsidized Housing, Other

HOMESTEAD PROPERTY TAX CREDIT - continued METHODS OF COMPUTATION RENTERS - ELIGIBLITY Pg. 26 & 27

- C. No Credit When Homestead Is Exempt From Property Taxes and Service Fees
- D. Nursing Homes, Adult Foster Care Homes, Or Homes For The Aged
 - Do Not Use Rent Paid
 - Use Allocated Share Of Property Taxes

HOMESTEAD PROPERTY TAX CREDIT - continued METHODS OF COMPUTATION RENTERS - ELIGIBLITY - Pg. 26

G.Mobile Home Park Residents:

Claim \$3 per Month Property Taxes
& 20 % Of Rent Paid

HOMESTEAD PROPERTY TAX CREDIT - continued METHODS OF COMPUTATION CR-2 Qualifications - Pg. 35

- 1. BLIND Vision Of 20/200 Or Poorer In

 The Better Eye With Corrective Lenses
 (For Homeowners Only)
- 2. Veteran With Service Connected
 Disability Or Veteran's Surviving Spouse
- 3. Surviving Spouse Of Veteran Deceased In Service

HOMESTEAD PROPERTY TAX CREDIT - continued METHODS OF COMPUTATION CR-2 Qualifications - continued - Pg. 35

- 4. Veterans Of Wars Before WWI,
 Pensioned Veterans, Active Service
 Persons, Or Their Surviving Spouses
- 5. Surviving Spouse Of A Non-Disabled Or Non-Pensioned Veteran

HOMESTEAD PROPERTY TAX CREDIT - continued METHODS OF COMPUTATION CR-2 Qualifications - Pg. 37

- 6. FIP/FIA Recipients:
 - General Rule

An FIP/FIA Recipient Will Receive A Credit Equal To The % That Non – FIP/FIA Income Bears To The Total Income

HOMESTEAD PROPERTY TAX CREDIT - continued METHODS OF COMPUTATION CR-2 Qualifications - Example - Pg. 38

Wages \$ 2,000

FIP/FIA \$ 3,000

HHI \$5,000

NON FIP/FIA 2000 / 5000 HHI = 40%
This Taxpayer Will Receive A Credit Equal
To 40% Of The Regular Property Tax
Credit

CR-2 Qualifications - Illustration Pg. 38

To Determine % Of NON-FIP/FIA Income When Friend Of The Court (FOC) Payments Are Involved:

Custodial Parent Received

Wages \$ 2,000

FIP/FIA <u>5,000</u>

TOTAL HHI \$ 7,000

Non-Custodial Parent Paid Friend Of The Court 3,000 During The Year

CR-2 QUALIFICATIONS - ILLUSTRATION Pg. 38 SOLUTION

FIP/FIA \$5,000

Less: Payments Made By

Non-Custodial Parent To FOC <u>-3,000</u>

Net: FIP/FIA \$2,000

2000 wages + 3,000 Non-Cust Parent = \$5000

5000 Non-FIP/FIA / 7000 HHI = 71.4%

This Taxpayer Will Receive A Credit Equal To 71.4% Of The Regular Property Tax Credit

DETERMING HHI FOR FIP/FIA RECIPIENT SAMPLE 1 PG. 96

Facts:

FIP Per FIA Statement	\$ 4,800
Per Child Support Statement	
Current Amount	3,100
Arrearage Amount	1,900
Participation Payments Paid	600
Reimbursements Paid	37
Refunds Paid	0

DETERMING HHI FOR FIP/FIA RECIPIENT SAMPLE 1 continued - PG. 96

Calculating the HHI

FIP Per Annual Statement	\$ 4,800

Faiticipation raying its raid ov	Participation	Payments Paid	600
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Raim	oursement Paid	37
Nellilli	Jui Stilltill Faiu	31

Household Income
\$ 5,437

DETERMING HHI FOR FIP/FIA RECIPIENT DETERMINING FIP INCOME

Child Support

Current Amount	\$3,100
 Arrearage Amount 	\$1,900
 Total Child Support 	\$5,000
<mark>→ FIP Income</mark>	
 Total FIP 	\$5,437
 Child Support 	<u>\$5,000</u>

Total FIP Income

DEFINITIONS- Pgs 27 & 28

- Definition Adjusted Gross Income (AGI) As Defined In The Internal Revenue Code Plus All Income Specifically Exempted Or Excluded
- Short Definition Taxable Income
 Plus Non-taxable Income

DETERMINING HOUSEHOLD INCOME -continue PGS. 27 & 28

- Examples Of Non-taxable Income Which Must Be Included:
 - 1. Social Security Including Dependents
 - 2. FIA Income
 - 3. Excluded Capital Gains On Sale Of Residence
 - 4. An Inheritance From A Non-Spouse
 - 5. Insurance Proceeds From A Non-Spouse
 - 6. Gifts In Excess Of \$300 Per Year

DETERMINING HOUSEHOLD INCOME - continued PG. 29

- Examples Of Items Which Do Not Have To Be Included In HHI:
 - 1. Money Received From a Loan
 - 2. The Employee Contribution Portion Of Pension Income
 - 3. Food Stamps
 - 4. Money Withdrawn From Banks
 - 5. Income Earned By A Dependent (Unless Used As Support)

HOUSEHOLD INCOME - continued COMMON SUBTRACTIONS - Pg. 29 & 30

The Following Is A Partial List Of Items Which Can Be Taken As A Subtraction On The Household Income Schedule. (Enter These As Negative Numbers On The Form)

1. Business Losses

Same As Federal

2. Rental Losses

Same As Federal

3. Payments to I.R.A.s

Same As Federal

4. Forfeited Interest Penalty

Same As Federal

HOUSEHOLD INCOME - continued COMMON SUBTRACTIONS - continued Pgs. 29-30

5. Alimony Paid (Not Child Support Paid)

6. Health Insurance Premiums

Michigan Law

Same as Federal

Taxpayer & Family – Long Term Nursing Home Coverage May Not Be Deducted

HOME HEATING CREDIT PG. 46

General Rule: Available to Anyone Who Owns Or Rents (There Is An Income Ceiling)

Who May Not File:

- 1. Residents Of Adult Foster Care Homes, Nursing Homes, and Substance Abuse Centers
- 2. Full-Time Students Claimed As dependents

HOME HEATING CREDIT - continued TWO METHODS OF COMPUTATION - PGS 48 & 59

- 1. Standard
- 2. Alternate

Home Heating Credit Exemptions

- 1. Personal
- 2. Age, 65 or Older
- 3. Blind, Deaf, Disabled (Per Social Security Act), or Hemiplegic, Quadriplegic or Paraplegic

HOME HEATING CREDIT - continued EXEMPTIONS - continued - Pg. 47

- 4. Unemployment Comp. Greater Than 50% Of AGI
- 5. Children & Dependent Adults Who Live With Taxpayer

MICHIGAN INCOME TAX FILIING REQUIREMENT – PG. 55

You Are Required to File a Michigan Income Tax Return If Any of the Following Are True:

- **™1.** Michigan Income Tax Is Due
- 2. Taxpayer Is Due A Refund
- **3.** A Federal Return Is Required
- 4. AGI Is Greater Than The Michigan Exemption Allowance

MICHIGAN INCOME TAX MICHIGAN INCOME TAX EXEMPTIONS - Pg. 59

Federal = \$3,100 Each

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Michigan Special = \$2,000 Each

MICHIGAN INCOME TAX <u>MICHIGAN SPECIAL EXEMPTIONS</u> - Pg. 59

1. Age 65 Or Over Taxpayer, Spouse,

or Dependent

2. Deaf, Blind, Plegic* Ta Totally & Permanently Disabled

Taxpayer, Spouse, or Dependent

3. Unemployment more One Per Return Than 50% AGI

^{*}Hemiplegic or Quadriplegic or Paraplegic

MICHIGAN INCOME TAX <u>COMMON SUBTRACTIONS TO INCOME</u> - Pgs. 60-62 *STARTING POINT - FEDERAL AGI*

- U.S. Government Obligations
- Military Pay
- Pension Income
- Business Income from Another State
- Senior Citizens Dividends, Interest and Capital Gains Limited to:

Single \$8,595

Joint \$17,190

MICHIGAN INCOME TAX COMMON SUBTRACTIONS TO INCOME - continued

- Social Security as included in AGI
- Income Earned While A Resident Of a Renaissance Zone
- Refunds From State & City Income Tax and Property Tax Credit From Prior Year, If Included In AGI
- Michigan Education Savings Program

MICHIGAN INCOME TAX COMMON SUBTRACTIONS TO INCOME - continued

- Michigan Education Savings Program
- Charitable Contribution Of Pension Distribution (Equals Amount in excess of Pension Deduction)
- Income Attributed to Another State

MICHIGAN INCOME TAX DO NOT SUBTRACT

- Lottery Winnings & Losses Except. Winnings From Prizes won before 1/1/89
- Wages Earned In Another State Except Reciprocal State

MICHIGAN INCOME TAX PENSION SUBTRACTION LIMITS - Pgs. 62 to 64

Type Single Joint

State Of Michigan Unlimited Unlimited

& MI Municipality

U.S. Government Unlimited Unlimited

Private Employer, \$38,550 \$77,100 IRAs, Sr. Citizen
Life Annuities, & Some 401(k)s

MICHIGAN INCOME TAX COMMON ADDITIONS TO AGI - Pg. 60

Interest/Dividends from Non-Michigan Municipal Obligations

Business Losses from Another State

MICHIGAN INCOME TAX NON-REFUNDABLE CREDITS - PGS 66 - 69

Type

City Income Tax

Public Contributions

Community Foundations

Homeless Food Bank

Limits

Table - MI 1040

50% of

Contribution

\$100 Single

\$200 Joint

MICHIGAN INCOME TAX NON-REFUNDABLE CREDITS - continued Pgs. 70 & 71

Type <u>Limits</u>

Tax Paid To Another State Tax Paid (Limit)

College Tuition
8% Of Tuition

Maximum - \$375 Per

Student

Historic Preservation 25% Of Expenditure

10 Year Carry-

Forward

Adoption Credit Excess Of

Amount Claimed

On Fed 1040

\$1200 Limit

MICHIGAN INCOME TAX FILING STATUS

Federal

State

Single, Head Of Household, Qualifying Widow(er) Single

Married, Joint

Married, Joint

Married, Separate

Married, Separate

Or Married, Joint

MICHIGAN TAX ASSISSTANCE MANUAL 2004 PROBLEM 1 - HOMEOWNER - Pg. 108

- John & Bertha Bowers
- Ages 64 & 67, Respectively
- No Dependents No Handicaps

	Social Security		<u>Pension</u>		
	CHECK	\$5,500	GROSS	\$9,000	
•	MEDICARE	<u>500</u>	CONTRIE	<u>2,200</u>	
•	BENEFITS	\$6,000	NET	\$6,800	
	HEALTH INS	URANCE I	PREMIUMS -	\$400	

MICHIGAN TAX ASSISSTANCE MANUAL 2004 PROBLEM 1 - HOMEOWNER CONTINUED - Pg. 108 Summer 2004

Total Taxes	\$250
Special Assessment Sidewalk	<u>150</u>
Total	\$400
<u>Winter 2004</u>	
Total Taxes	\$745
Administrative Fee	<u>5</u>
Total	\$750

MICHIGAN TAX ASSISSTANCE MANUAL 2004 PROBLEM 2 - RENTER - Pg. 109

- Vanessa Collins Age 36, 3 Dependents
- No Handicaps
- Income W-2 Wages \$14,000
- Health Insurance Premiums None
- Rent \$450 Per Month, Entire Year.
- Determine The Credit If:
 - 1. Vanessa Rents in 10 % Service Fee Housing
 - 2. Vanessa Lives in a Mobile Home, Lot Rent of \$450, Includes \$3 Per Month Specific Tax

MICHIGAN TAX ASSISSTANCE MANUAL 2004 PROBLEM 3 - Pg 110

Senior Citizen with Large Rent

- Maggie Stonehead
- **→** Age 78
- Maggie Received A \$4,800 Pension From Toys-R-Us
- Her Annual Social Security Statement

Paid By Check	\$5,100
Medicare Premiums	400

→ Benefits For 2004	\$5,500
	ΨΟ,

Blue Cross Insurance per Qtr	\$225
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Rent, Per Month, Whole Year \$400

MICHIGAN TAX ASSISSTANCE MANUAL 2004 PROBLEM 4 - Pg.111 Veteran Using MI-1040CR-2

Married. He Receives a \$6,000 Army Disability Pension. His % Of Disability Is 15%. He Also Had Wages Of \$40,000 For The Year. He Gives You A Property Tax Bill With The Following Information:

Property Taxes

\$ 811.73

Taxable Value

\$20,165.00

MICHIGAN TAX ASSISSTANCE MANUAL 2004 <u>Problem 4 - SOLUTION</u> - Pg. 112

As A General Claimant He Would Receive No Property Tax Credit, Computed As Follows:

Property Taxes

\$ 811.73

HHI \$46,000

X .035

3.5 % HHI \$ 1,610.00 CREDIT 0.00

Therefore Examine The CR-2 Method.

MICHIGAN TAX ASSISSTANCE MANUAL 2004 PROBLEM 4 - VETERAN RENTER

Assume John Hogan (In Problem 4) Rented His Home for \$500 Per Month.

SOLUTION

As a General Claimant He Would Receive No Homestead Credit, Computed As Follows:

Annual Rent 6,000 X 20% = \$ 1,200

+ HHI $4,600 \times .035 = - 1,610$

CREDIT
= \$ (

Therefore Examine The CR-2 Method. Assume The Millage Rate For Kalamazoo Is 31.5 Mills.

MICHIGAN TAX ASSISSTANCE MANUAL 2004 <u>PROBLEM 5 - FIP/FIA RECIPIENTS</u>

Ann Patterson Household Income

Wages \$2,000

FIP/FIA 6,000

Total HHI \$8,000

The Father Paid Friend Of The Court \$1,000 During The Year.

MICHIGAN TAX ASSISSTANCE MANUAL 2004 PROBLEM 6

- Art is 81 & Deaf
- Millie is 79 & Blind
- They Have No Children Nor Other Dependents
- Income
 - Social Security After Medicare Is Deducted Is \$ 500 Per Month.
 - Pension From Ajax Manufacturing Is \$5,000 For The Year.

MICHIGAN TAX ASSISSTANCE MANUAL 2004 PROBLEM 6 - continued

- They Present Heating Bills For The 12
 Consecutive Month Period Of Nov. 1,
 2003 through October 31, 2004 Of \$1,705.
- They Own their Home and Heat With Gas.
- Prepare A HOME HEATING CREDIT For the Watson's.

MICHIGAN TAX ASSISSTANCE MANUAL 2004 PROBLEM 7

Dana & Sandra Edwards Are Ages 64 & 65 Sandra's Vision In Her Better Eye with Glasses Is 20/100. They Have No Other Handicaps. They Furnish 75 % Of The Support For Dana's Mother.

2004 Income Is From The Following:

Wages	\$15,000
City Of Highland Park Pension	\$12,000
Bank Interest	\$750

MICHIGAN TAX ASSISSTANCE MANUAL 2004 PROBLEM 7 - continued

- They Received A City Of Saginaw Income Tax Refund Of \$ 100 In 2004, From Their 2003 Saginaw Return.
- They Purchased A Computer From A Wisconsin Retailer For \$ 1,500. No Sales Tax Was Charged.

W-2 Information	Gross	Fed	State	City
	Wgs.	W/H	W/H	W/H
Barker Products	\$12,000	\$750	\$350	\$250